

by substituting “0.5 percentage point” for “2 percentage points”.

**(2) Underpayment rate**

The underpayment rate established under this section shall be the sum of—

- (A) the Federal short-term rate determined under subsection (b), plus
- (B) 3 percentage points.

**(b) Federal short-term rate**

For purposes of this section—

**(1) General rule**

The Secretary shall determine the Federal short-term rate for the first month in each calendar quarter.

**(2) Period during which rate applies**

**(A) In general**

Except as provided in subparagraph (B), the Federal short-term rate determined under paragraph (1) for any month shall apply during the first calendar quarter beginning after such month.

**(B) Special rule for individual estimated tax**

In determining the addition to tax under section 6654 for failure to pay estimated tax for any taxable year, the Federal short-term rate which applies during the 3rd month following such taxable year shall also apply during the first 15 days of the 4th month following such taxable year.

**(3) Federal short-term rate**

The Federal short-term rate for any month shall be the Federal short-term rate determined during such month by the Secretary in accordance with section 1274(d). Any such rate shall be rounded to the nearest full percent (or, if a multiple of  $\frac{1}{2}$  of 1 percent, such rate shall be increased to the next highest full percent).

**(c) Increase in underpayment rate for large corporate underpayments**

**(1) In general**

For purposes of determining the amount of interest payable under section 6601 on any large corporate underpayment for periods after the applicable date, paragraph (2) of subsection (a) shall be applied by substituting “5 percentage points” for “3 percentage points”.

**(2) Applicable date**

For purposes of this subsection—

**(A) In general**

The applicable date is the 30th day after the earlier of—

- (i) the date on which the 1st letter of proposed deficiency which allows the taxpayer an opportunity for administrative review in the Internal Revenue Service Office of Appeals is sent, or
- (ii) the date on which the deficiency notice under section 6212 is sent.

The preceding sentence shall be applied without regard to any such letter or notice which is withdrawn by the Secretary.

**(B) Special rules**

**(i) Nondeficiency procedures**

In the case of any underpayment of any tax imposed by this title to which the defi-

ciency procedures do not apply, subparagraph (A) shall be applied by taking into account any letter or notice provided by the Secretary which notifies the taxpayer of the assessment or proposed assessment of the tax.

**(ii) Exception where amounts paid in full**

For purposes of subparagraph (A), a letter or notice shall be disregarded if, during the 30-day period beginning on the day on which it was sent, the taxpayer makes a payment equal to the amount shown as due in such letter or notice, as the case may be.

**(iii) Exception for letters or notices involving small amounts**

For purposes of this paragraph, any letter or notice shall be disregarded if the amount of the deficiency or proposed deficiency (or the assessment or proposed assessment) set forth in such letter or notice is not greater than \$100,000 (determined by not taking into account any interest, penalties, or additions to tax).

**(3) Large corporate underpayment**

For purposes of this subsection—

**(A) In general**

The term “large corporate underpayment” means any underpayment of a tax by a C corporation for any taxable period if the amount of such underpayment for such period exceeds \$100,000.

**(B) Taxable period**

For purposes of subparagraph (A), the term “taxable period” means—

- (i) in the case of any tax imposed by subtitle A, the taxable year, or
- (ii) in the case of any other tax, the period to which the underpayment relates.

**(d) Elimination of interest on overlapping periods of tax overpayments and underpayments**

To the extent that, for any period, interest is payable under subchapter A and allowable under subchapter B on equivalent underpayments and overpayments by the same taxpayer of tax imposed by this title, the net rate of interest under this section on such amounts shall be zero for such period.

(Added Pub. L. 93-625, §7(a)(1), Jan. 3, 1975, 88 Stat. 2114; amended Pub. L. 94-455, title XIX, §1906(b)(13)(A), Oct. 4, 1976, 90 Stat. 1834; Pub. L. 96-167, §4(b), Dec. 29, 1979, 93 Stat. 1275; Pub. L. 97-34, title VII, §711(a)-(c), Aug. 13, 1981, 95 Stat. 340; Pub. L. 97-248, title III, §345(a), Sept. 3, 1982, 96 Stat. 636; Pub. L. 98-369, div. A, title I, §144(a), July 18, 1984, 98 Stat. 682; Pub. L. 99-514, title XV, §§1511(a), (c)(1), 1535(a), Oct. 22, 1986, 100 Stat. 2744, 2750; Pub. L. 100-647, title I, §1015(d), Nov. 10, 1988, 102 Stat. 3569; Pub. L. 101-239, title VII, §7721(b), Dec. 19, 1989, 103 Stat. 2399; Pub. L. 101-508, title XI, §11341(a), Nov. 5, 1990, 104 Stat. 1388-470; Pub. L. 103-465, title VII, §713(a), Dec. 8, 1994, 108 Stat. 5001; Pub. L. 104-188, title I, §1702(c)(6), (7), Aug. 20, 1996, 110 Stat. 1870; Pub. L. 105-34, title XIV, §1463(a), title XVI, §1604(b)(1), Aug. 5, 1997, 111 Stat. 1057, 1097; Pub. L. 105-206, title III, §§3301(a), 3302(a), July 22, 1998, 112 Stat. 741.)